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C O N F I D E N T I A L SECTION 01 OF 02 KINSHASA 001270

SIPDIS

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TAGS: [ECON](#) [ENRG](#) [PGOV](#) [CG](#)

SUBJECT: DRC ENERGY SECTOR UPDATE

Classified By: Econoff Peter Newman for reasons 1.5 b/d

11. (C) SUMMARY. Activity in the DRC energy sector picked up during the first half of 2004. Chevron-Texaco is in the process of selling its offshore drilling operation to European junior firm Perenco but intends to stay active in the DRC through exploration and pipelines. Cobil continues to function as a parastatal despite some discontent within the government over the purchase of former Mobil Oil Congo assets. Construction has begun on two hydroelectric plants in Kasai Occidental and Bandundu while progress is made in financing a third in North Kivu. END SUMMARY

CHEVRON-TEXACO CHANGING ITS DRC OPERATIONS

12. (C) Chevron-Texaco representative Tim Wagner called on Ambassador on June 8 to inform him of Chevron-Texaco's forthcoming sale of its offshore operations to European junior petroleum company, Perenco. Perenco operates onshore concessions near Muanda, DRC, formerly owned by Total-Fina-Elf. It has offered to Chevron double the present value of the offshore concession. Chevron had planned for 7-12 more years of life in the concession (which covers 390 square miles and produces 19,000 barrels per day), but were willing to negotiate on the terms offered by Perenco. The deal is scheduled to be finalized in early July upon which a press release will be made. Wagner stated that Chevron preferred for the potential sale to remain quiet until completed because of political difficulties that might be encountered due to certain alleged shadow investors in Perenco. He alluded to President Sassou of Congo-Brazzaville and President Bongo of Gabon.

13. (C) The GDRC acceded to the deal based on Chevron's continuing presence in the DRC. (COMMENT. It is important to give the perception that Chevron is staying in the DRC. Some economic and political actors consistently comment to Post that the USA continues to "disinvest" from the DRC, citing long past examples of General Motors and a recent possibility of withdrawal by Citibank. This creates a negative ambience for discussions of economics and of US presence in general. END COMMENT.) The Ministry of Energy has been searching for a senior petroleum exploration and production company to continue exploration in the Central Congo Basin (essentially where the provinces of Equateur, Bandundu and Oriental meet) that was started in 1981 by Exxon. Exxon's research was somewhat promising, but most oil finds were heavily laden with sediment. Recent exploration has been performed by small firms such as King and King of Poland. Chevron has tentatively agreed to participate in exploration activities and will continue to maintain an office in Kinshasa. (POC: Legal and Government Relations Director Koni Mukoka. Phone: 243 81 700 8005)

14. (C) Chevron also has continued interest in developing a pipeline from Cabinda to Luanda, Angola as well as development of processing facilities in Cabinda. The pipeline would have to traverse DRC territory (land or maritime) and processing facilities would necessitate a high load of electricity, most likely provided by a line from Inga Dam. Chevron intends to coordinate with the Reynolds Group which would like to run a line from Inga to Pointe Noire. The linchpin to this deal would be financing by Chevron and Reynolds to rehabilitate and upgrade some of the turbines in the Inga system.

REPAIRS TO INGA

15. (SBU) In the first quarter of CY 2004, Congo-Brazzaville made a USD 32 million payment to the DRC for an overdue electricity bill. The Ministry of Energy plans to use these funds to rehabilitate one turbine in either Inga I or II. The engineering firm to be contracted for the rehabilitation is Alstom-France.

COBIL OIL - MINISTRY OF ENERGY REBUTS ACCUSATIONS OF WRONGDOING

16. (SBU) Some actors within the GDRC and the private sector have grumbled that the purchase of Mobil Oil Congo (now Cobil) by the GDRC is not good business for the country because it now competes with the other petroleum parastatal, Cohydro. Furthermore, they claim that the quality of gasoline and diesel fuel is uncertain. Ministry of Energy Chief of Staff Guillaume Bolenga offered the following justification. (Note. Bolenga is also on the board of directors of Cobil.

End Note.) The GDRC needed to purchase Mobil's assets in the DRC to prevent a duopoly of Shell and Total/Fina/Elf. Total holds 50 percent of the petroleum product market, while Shell holds 30 percent and Mobil held 15 percent. Both Total Group and Shell made offers for Mobil's DRC operations. The GDRC paid bargain basement prices for Mobil's assets, according to Bolenga, because Mobil Oil Congo had USD 2 million in debt and had not updated its infrastructure (e.g. replacing station pumps) in 15 years. Furthermore, the lubricant factory Mobil built in the DRC does not function and is dilapidated to the point of having little value. On competition with Cohydro, Bolenga explained that Cohydro only held 4 percent of the retail market and was primarily interested in transportation and distribution. (COMMENT. To a certain extent, Bolenga's logic makes sense. However, Shell's market share is largely dependent upon its sales to Monuc. If Monuc were taken out of the equation, other suppliers such as Sonangol and X-Oil would have much larger market shares. END COMMENT.)

PLANS FOR PREPAID ELECTRICITY IN KINSHASA

17. (SBU) The Ministry of Energy is currently in negotiations with ESKOM of South Africa to rehabilitate and extend the electricity distribution system in Kinshasa. In return, ESKOM will convert the payment system to prepaid cards until its investment plus profit is recuperated. The contract is purely notional at the moment.

RURAL ELECTRIFICATION - CLACKSON POWER AND SEGELEC PROJECTS

18. (SBU) Clackson Power of South Africa is currently building three hydroelectric power plants in the DRC on build-own-operate-transfer contracts. These dams are in Butembo (North Kivu), Katende (Kasai Occidental) and Kakabola (Bandundu). In Butembo, the main problem has been financing, in response to which the Ministry of Energy has negotiated for USD 200,000 of money liberated by debt reduction agreements (and earmarked for poverty reduction) to be directed to Butembo and in part to this project. (COMMENT. These funds are not sufficient for a several million dollar project. However, it is a proactive measure by the Ministry, in light of the small amount of the national budget directed toward infrastructure rehabilitation and development. END COMMENT.) Financing for the dams at Katende and Kakabola are largely resolved and construction has begun. However, there was a small problem with the local community at Kakabola which was withholding signing the project contract unless greater "social programs" were presented. The Ministry settled the issue by reminding the local community that the site for the project could be changed as there are many waterfalls and rapids nearby. To facilitate these projects, the Ministry of Energy is also negotiating preferential shipping rates on the national freight railway company (SNCC) to reduce material costs.

19. (U) The Ministry of Energy is also negotiating a contract with Cegelec-France to develop another hydroelectric plant 60Km from Kananga (Kasai Occidental). This dam would be larger than the one being built by Clackson and would likely be connected to the Clackson system as well as to the Mbuji Mayi grid.

HOOKS